

Citation for published version:

Arestis, P, Charles, A & Fontana, G 2015, 'Power, intergroup conflicts and social stratification in the United States: what has the global crisis taught us?', *Review of Social Economy*, vol. 73, no. 4, pp. 370-387.
<https://doi.org/10.1080/00346764.2015.1089109>

DOI:

[10.1080/00346764.2015.1089109](https://doi.org/10.1080/00346764.2015.1089109)

Publication date:

2015

Document Version

Peer reviewed version

[Link to publication](#)

This is an Accepted Manuscript of an article published by Taylor & Francis in *Review of Social Economy* on 19.10.2015, available online: <http://www.tandfonline.com/10.1080/00346764.2015.1089109>.

University of Bath

Alternative formats

If you require this document in an alternative format, please contact:
openaccess@bath.ac.uk

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Power, Intergroup Conflicts and Social Stratification in the United States: What Has the Global Crisis Taught Us?

Paper Prepared for a Special Issue on “Ethics, Global Finance and the Great Recession”

By Philip Arestis (University of Cambridge, UK; and University of the Basque Country, Spain), Aurelie Charles (University of Bath, UK), and Giuseppe Fontana (University of Leeds, UK; and University of Sannio, Italy)

[E-mails: pa267@cam.ac.uk; A.Charles@bath.ac.uk; G.Fontana@lubs.leeds.ac.uk]

Abstract: Drawing on early sociological analyses of how power and intergroup conflicts can affect the development of modern economies, this paper investigates how the recent Global Crisis has affected the stratification of the US society. The paper argues that the consumerist society has reinforced the historical stratification of social identities with white men in high-paid, high-social status managerial and financial occupations at the top, and black women in low-paid, low-status service occupations at the bottom. This paper calls for a deconstruction of the neo-liberal individual into a unique combination of identities in a stratified capitalist society in order to reveal how social stratification has evolved during the Global Crisis. The paper finally concludes on the importance of heterogeneous identities in reflecting the diversity of societal and economic interests in order to address the issue of financial stability and sustainability at the corporate and societal levels.

Introduction

A feature of consumerist societies is to celebrate the nature of individuals as atomistic entities by promoting the values of “personal improvement and dignity, self-definition, attaining the respectable social standard”. These are the words of the distinguished scholar Zygmund Bauman (1982: 181) and are part of his prolific work, which undermines the relevance of neo-classical economic theories in explaining modern human interactions. In the neoclassical approach to economics, individualization is in effect linked to free-market ideology, which celebrates the actions and fulfilment of an atomistic individual who does not belong to any class, gender, race, or age group. Sociological analyses have, however, widely shown the importance of power, intergroup conflicts and social identity in shaping not only economic outcomes, but also economic theories and policy-making.

Drawing on the early sociological work of Bauman (1972, 1982) on the role of power and intergroup conflicts in the capitalist society, this paper investigates the nature of the dominant demographic group in the US society, namely white men, its existence and its persistence over time during the financialisation period and beyond. Several recent works across the social sciences have suggested that the exacerbation of financial earnings excesses has gone hand in hand with deep structural changes in modern economies that have led first to the financial crisis in 2007/2008 and then to the Great Recession, i.e. the so-called Global Economic Crisis or Global Crisis (GC) for short (Knights and Tullberg 2012; Arestis, Charles and Fontana 2014).

A number of those contributors have suggested that inequality, especially in the US and UK, was one of the root causes of the GC. In this regard, the most important distributional factor was the concentration of earnings in the financial sector. Furthermore, as argued in Arestis and Karakitsos (2013), inequality was promoted by another main cause of the crisis, namely

financial liberalisation, which, through deregulation, enabled the household sector to increase its debt substantially.¹ Financial liberalisation and inequality helped to develop the third root cause of the crisis, namely ‘financial innovation’ (or ‘financial architecture’). Inequality and financial liberalisation promoted the enhancement of the ‘shadow banking’ (or ‘parallel banking sector’), especially after the repeal of the 1933 Glass-Steagall Act in 1999, which would borrow on a short-term basis and lend on a long-term basis, mainly for mortgage purposes; thereby creating what is now known as sub-prime mortgages. In addition, the shadow banking engineered a new activity that relied on interlinked securities, the Collateralized Debt Obligations (CDOs), mainly emerging from and closely related to the subprime mortgage market. The sale of CDOs to international investors made the US housing bubble a global problem, and provided the transmission mechanism for the contagion of the financial crisis to the rest of the world. As long as long-term interest rates were higher than short-term rates of interest, the new financial architecture was flourishing. Those activities were also helped by international imbalances, monetary policy of low interest rates and the role of credit-rating agencies. The collapse of the housing market and the reversal of interest rates, with long-term rates falling below short-term ones, by August 2007 promoted the freezing of the shadow banking in the US and the collapse of the CDOs market. The collapse of the subprime and CDOs markets spilled over into the real economy through the credit crunch and collapsing equity markets. All this then led to the freezing of the interbank lending market after August 2007, and promoted the GC, namely an international financial crisis over the period 2007/2008 followed by a significant recession, the ‘Great Recession’.

Since 2007, financial authorities have promised to introduce reforms to achieve financial stability (Arestis and Karakitsos 2013: Ch. 9). However, the homogeneity and hegemony of group identities and related interests of the financial actors and institutions have not been challenged since, which means that the same policy and practices are likely to be sustained

beyond the crisis, and hence raises doubt on the effectiveness of future reforms in the financial sector. As such, this paper argues that the persistent social stratification of the occupational hierarchy, which has played a prominent role in the process leading to the financial crisis, is also likely to be one of the direct consequences during and beyond the GC, unless the issues of identity, power and intergroup conflict are taken seriously by policy makers.

The paper advocates the need to deconstruct the neo-liberal individual into separate social identities such as class, race, and gender on a hierarchical and evolutionary basis in order to explain the evolution and persistence of inequality over the last few decades (see also, on the ontology of fear and its relationship to neo-liberalism, Wrenn 2014). For this purpose, the analysis starts by reviewing the experience of gender, race and ethnic groups in the wake of the crisis of the summer 2007. Building on from this, the discussion then proceeds to show how the existence and survival of a dominant group at the intersection of class, race, ethnicity and gender depends on the sustainability of their learned patterns of expectations and behaviour, and how such patterns played a major role on rising inequality during the GC. In effect, the historical memory has set in motion the mechanisms of power relationships specific to the US society (Arestis, Charles and Fontana 2014; Darity 1989, 2005) in order to sustain white men in managerial and financial occupations at the top of the US stratification process. Finally, the last part of the paper discusses how these mechanisms of power relationships are being sustained in the GC and beyond, and offers some insights for a set of reforms towards sustainable financial institutions.

From Growth to Crisis: Capital Accumulation and Inequality

According to the early sociological work of Bauman on the role of power and intergroup conflicts in the capitalist society, modern societies are not egalitarian by nature since the free movement of capital means that capital tends to accumulate in the hands of a historically dominant group, which leads to rising inequality vis-à-vis other groups. In economic theory, this process is justified by the Pareto criterion which leads Bauman to argue that Western capitalist societies drive on the utopia of equality where “as long as one could indeed get richer without making those already rich poorer, the egalitarian spur made the wheels of expanding economy rotate faster, without unduly straining their capitalist axis” (Bauman 1982: 182). At the time of these writings, Western societies have indeed experienced rising levels of inequality, which have gone hand in hand with the financialisation process of modern economies. In the literature ‘financialisation’ has been referred to as the dominance of ‘shareholder value’ as a mode of governance, or the rising popularity of market-based over bank-based financial systems, or simply the increasing economic and political power of the ‘rentier’ class who derives its income from the ownership of financial property rather than from productive activities (Krippner 2005). Hence, the general meaning of financialisation is understood here to refer to the growing weight of financial motives and actors in the operation of modern economies, both at the national and international level, from the early 1980s until today.²

Several studies have tried to capture the salient features of the financialisation process and the role of rising inequality over the last three decades in terms of its contribution to the GC (e.g. Perugini et al. 2015, Stockhammer 2015). In effect, rising inequality makes the financial sector more fragile and vulnerable to systematic failures, with deleterious effects on the entire society. One view suggests that income inequality is due to recent changes in the global

terms-of-trade, moving away from low-income sectors toward high-income sectors such as the financial sector (Kuznets 1955, Galbraith 2011). From this perspective, financialisation is a global phenomenon, and this phenomenon has led to a growing power of financial actors and institutions. Once the momentum of capital accumulation is launched, inequality is exacerbated between those retaining capital in their hands and those not enjoying the fruits of economic growth. Financialisation meant that there was a mutually reinforcing relationship between capital accumulation and rising income inequalities, serving the interests of the elite of rentiers.

In the US, the rise in inequality has led to a decline in savings and an increase in household debt as the relatively poor sought to maintain their (relative) living standards. The co-existence of rising income inequality and (relatively) constant living standards was maintained at the expense of an unsustainable credit boom, which at the end helped to promote the GC (Fitoussi and Saraceno 2010, Fitoussi and Stiglitz 2009). In 2007, the crisis hit the US and many advanced and less advanced economies, and led to a decisive response by policy makers around the world in order to save the banking and financial sectors from illiquidity and insolvency problems. These policy interventions were defended on the grounds that the smooth working of the banking and financial sectors was an essential component for the existence and sustainability of modern capitalist societies. As a result of the policy interventions, the government budget positions of many countries in the world deteriorated dramatically, and this in turn led to a contagious spread of austerity measures.

According to Crotty (2012), the ‘great austerity war’ should be the burden of the culprits of the crisis, by increasing taxation on the rich and powerful political groups of the US society, rather than being the burden of its victims, the poor and middle-class who suffer the side-effects of spending cuts in healthcare, education and benefits. Together with fewer jobs and

income opportunities in the wake of the crisis, vulnerable groups are likely to experience a shrinking of their social safety net with the withdrawal of the state. The early writing of Bauman (1982) describes how power and intergroup conflicts can inform the effects associated with economic and social crises:

pauperisation becomes the fate of the groups which are to a larger degree, if not fully, dependent on the increasingly depressed areas of social life [...] Mothers without husbands will be definitely cut off from the labour market by the disappearance of nursery schools and crèches. Old people will become the main victims of the shrinking welfare offices. Ethnic minorities, first to lose their jobs in rising unemployment, will in all probability suffer a cumulative impact of the bias with all its ramifications. Families with incomes too small or too irregular to deserve a mortgage loan will be easy prey for the cruelty and greed of slum landlords (Bauman 1982: 187).

The GC illustrates the relevance of power and intergroup conflicts in informing the actual socio-economic outcomes of the 2007-2008 international financial crisis on the social groups mentioned above, namely single mothers, the elderly and ethnic minorities.³ In effect, deconstructing the neo-classical atomistic individual into multiple identities allows a better understanding of the un-egalitarian impact of the GC on these groups. Firstly, single mothers who maintain their families in the US have experienced a surge in unemployment since 2009. In effect, the unemployment rate of single mothers was around 7% in April 2009, and rose above 12% in December 2012. In the meantime, the unemployment rate of married men dropped from 7% to less than 5%, respectively (Seguino 2013). Whether this is the sole factor linked to government spending cuts and its associated pressure on childcare is not clear. However, recent evidence on the time allocation of married mothers in the US shows

that married women have substituted paid work for unpaid work during the 2007-2009 recession (Berik and Kongar 2013). Fathers' paid work hours also declined, but their time was reallocated to leisure rather than childcare. Therefore, the pattern of gender inequality in childcare seems to be reinforced in hardship.

Secondly, the effect of the GC on the elderly is associated with the 'austerity war' during and beyond the crisis, and with a smaller welfare state in general. For instance, in the UK context, Grimshaw and Rubery (2012) review the potential effects of the Coalition Government plans of spending cuts on the society, and in particular the outsourcing of public services, such as healthcare, to the private sector. However, even prior to the full implementation of the cuts, they show that the Coalition Government "has had to guarantee care provision for older people affected by the bankruptcy of a national chain of care home providers, and the government regulator, the Care Quality Commission, has had to accept part of the blame for evidence of poor quality care offered by the private sector" (Grimshaw and Rubery 2012: 121). Here, the general issue of care framed in a free-market ideology is that care is a long-term investment whose cross-generational rewards are not necessarily consistent with the intrinsic values of short-term capital accumulation.

Thirdly, the effect of the GC on ethnic minorities comes through the fact that the latter face fewer job and income opportunities. At a time of slower growth, it would make economic sense for employers to hire the cheaper and more flexible part of the labour force, i.e. women and ethnic minorities. However, Charles and Fontana (2011) show that, at the heart of the financial crisis between 2008 and 2009, white employers in the US favoured white workers at the expense of the young, female, black and Asian workers. The traditional minorities of the part-time labour force, the young, female, blacks and Asians have all experienced lower growth rates in part-time employment than white men and Hispanics. In times of rising

uncertainty, it seems that the dominant white group is left with their identity as the only certainty, which in turn triggers a Darwinian survival strategy of their group by hiring an increasing number of whites on part-time contracts.

Ethnic minorities have also suffered the cumulative impact of being poor family households who became easy targets for ‘predatory’ loans, namely loans with unsustainable terms. Dymski (2010) points out that predatory lending has surged in the US since the early 1990s. In the consumer stage of capitalism, the foreclosure crisis in the US is the outcome of a group conflict between poor ethnic minorities seeking higher living and housing standards, and the financiers seeking higher social standards. The last thirty years have indeed been characterised by the evolution of financial exclusion of poor and minority households into their financial exploitation. Rugh and Massey (2010) estimate the effect of residential racial segregation on foreclosures in the US, controlling for factors such as housing price inflation, overbuilding, excessive subprime lending, and failure to assess creditworthiness. The results show that foreclosures are concentrated in areas with large racial differentials in subprime lending. As expected, foreclosures concern essentially Hispanic and black home owners in metropolitan areas, especially in the West and Midwest. They conclude that segregation is both a cause and consequence of the housing crisis.

In sum, the most vulnerable groups during the GC in the US, namely women, black and Hispanic groups, and the elderly being cared for, pay the price of financial liberalisation and deregulation, and the consequent rising of inequality over the past 35 years. The GC is effectively the outcome of the intersection of these different rising trends, inequality on the one side, and financial liberalisation/deregulation and financial exploitation, on the other side (Tridico 2012). In a highly financialised society like the US, an individual with several segregated identities, such as being an old, black, woman working in care occupations, would

mean a much higher probability of cumulative deprivation during economic downturns. This outcome is consistent with the main tenets of the stratification and intersectionality literature (e.g. Darity 1989, 2005, Darity and Williams 1985, hooks 1981) explaining that historically race and gender have been used as a convenient group identification feature for stratifying the economy in terms of access to resources and opportunities. In addition, as argued by Arestis, Charles and Fontana (2014) group identities and social norms, i.e. the established set of social practices and ideals that shape the behaviour of people, are malleable over time. Changing macroeconomic conditions do affect group identities and social norms, and they can fuel intergroup conflict. The GC, characterised by intense competition over prized and scarce resources such as jobs or access to care, is a case in point (see also, Seguíno 2010, Seguíno and Heintz 2012).

Cumulative Identities in the US: Class, Race, and Gender Stratification

At the other end of the stratification spectrum, the rise of a dominant group reflects the specific institutional framework in which financialisation takes place. Lapavistas and Powell (2013) show that financialisation in advanced economies varied according to their institutional characteristics. For example, over the past thirty years, households in Japan, Germany and France tended to have a higher proportion of their savings in the form of deposits rather than market-based assets; the latter was more prominent in the case of the US and British households, whose savings were more prone to market volatility. However, a common trend across these five countries is that household indebtedness has increasingly been in the form of mortgage debt rather than consumer debt. Lapavistas and Powell (2013) also show that this trend can be explained by the change in the lending structure of Western banks. In effect, since the 2000s loans were increasingly made to the non-productive sector of

the economy, i.e. finance, insurance and real-estate. As a consequence, the portfolios of both households and banks assets became increasingly exposed to the price volatility of financial assets. This increasing exposure was facilitated by the globalisation and increasing speed of financial interactions helped by advances in e-technologies: “rather than homogenizing the human condition, the technological annulment of temporal/spatial distances tends to polarize it” (Bauman 1998: 18). This human polarization has essentially reflected the growing gap between non-financial and financial activities.

Since the early 1980s, the US economy has witnessed a shift of income away from the labour share of national income towards an increase in the capital share of national income, and more specifically towards the profit share in the financial sector (Palley 2013). The rising power of finance has in turn led to the rise of a dominant group at the intersection of class, race and gender. Starting first with class, class stratification can be articulated on an occupational basis,⁴ and it will be considered as such for the purpose of this study. In a globalised society, “you can tell one kind of society from another by the dimensions along which it stratifies its members, and, like all other societies, the postmodern, consumer society is a stratified one. Those “high up” and “low down” are plotted in a society of consumers along the lines of mobility—the freedom to choose where to be” (Bauman 1999: 40). If the freedom of choice is the prime value of market liberalisation, people who are free to choose where to be and have easy access to financially-rewarding occupations are part of the dominant group of modern societies. In the age of globalisation, Bauman (2011) argues that managerial and financial occupations have become the dominant class of the postmodern society. He further argues that the nature of managerial occupational itself has evolved to reflect the change of society from a productive society, where the managerial role used to be in terms of controlling the labour force, to consumerist modern times where the new managerial role promotes flexible and independent work.

The search of a dominant class in a given society depends to a large extent on the historical power structure of this society. In the search for the 'next dominant class', Bauman argues that "[w]hatever class is found, it is defined in the same way: the way dictated by historical memory of a specific historical form of class denomination" (Bauman 1982: 27). The issue of race is particularly interesting given the US history. Historically, the power structure between labour and capital in the US had been according to skin-colour, whereby whites have ownership of the means of production, while the bulk of non-white minorities are part of the labour force. As the society evolves from a productive to a consumerist type, financialisation reflects this evolution and Arestis, Charles and Fontana (2014) show that the same racial division is sustained and exacerbated.

In the US context, Arestis, Charles and Fontana (2013) have highlighted two striking features of the financialisation period that are often ignored by economists and policy makers alike. First, they uncover a growing wage premium for individuals working in managerial and financial occupations. Secondly, they show that this so-called finance wage premium is not equally distributed among all main demographic groups active in the US labour market. In particular, it is shown that white men and, to a lesser extent, Hispanic men have taken an increasing share of this wage premium at the expense of black men, white women, and Hispanic women. On the basis of these results, they conclude that financialisation has been neither race nor gender neutral, and that it has favoured white men in managerial and financial occupations.

Charles (2011) also shows that once the 2007 financial crisis hit the US economy, white identity preferences remain dominant in the labour market. The black group ends up at the bottom of the stratification process, whether it is in terms of losing their jobs first at the time of the crisis, or in terms of not receiving a similar wage premium than the white and Hispanic

groups in managerial and financial occupations. Regardless of the level of uncertainty in the economic environment, the black group is segregated across the occupational spectrum. This is consistent with Rugh and Massey (2010) mentioned in the previous section, but also with Lacy (2012) who looked at the foreclosure rates of the black group by level of income. The findings show that the foreclosure rate of borrowers from the black group is the highest amongst low-income, but remains at the same level, around 10 percent, also for high-income borrowers. The foreclosure rate of borrowers from the Hispanic group is around 7 percent in the low-income group and gradually goes up to 15 percent in the high-income group. The Asian group shows a similar increasing trend. Finally, the foreclosure rate of borrowers from the white group is around 6 percent in the low-income group and goes down to 4 percent in the high-income group. The association of class and race, therefore, leads to dissimilar outcomes depending on the specific race considered, with the black group at the bottom of the racial stratification.

The last element of stratification analysed here is gender. Similarly to race, gender is a social identity which is subject to power relationships and stereotypes. Blumer (1954) has pointed out that prejudice as a sense of group position could go a long way to explain gender discrimination and racial segregation (see, on the latter, Allport 1954). Braunstein (2008) shows that gender discrimination and its effect on economic growth is an instructive context for understanding that economic actors exercise power and collective action with the goal of creating and/or enhancing social norms that are costly for the society as a whole, but advantageous for a particular group.⁵ Among other things, this means that in the labour market, employers may indeed have identity preferences regarding which group to promote (the well-known Glass-ceiling effect), which group to hire - given that certain occupations are socially perceived to be for some skin-colour, gender, or even age groups - or which group to fire first in times of rising uncertainty.

Finally, the particularity of the gender identity could also be related to the foundations of modernity, if one accepts Weber's view on the birth of modernity. In effect, Weber's view of modernity is that it was born out of the separation between the family household, based on the moral standards of caring and sharing, and the business enterprise, based on efficiency and profitability (Weber 1905). Gender stereotypes often associate occupations related to care and personal service to 'female' jobs, while occupations related to profitability and efficiency, including managerial and financial occupations, tend to be perceived as 'male' jobs. Hence, the Global Crisis is also a crisis of the moral standards of caring and sharing; sharing the fruits of growth during the financialisation process beyond managerial and financial occupations, and caring for the vulnerable groups of society who are left impoverished during the crisis.

Financial Actors and Institutions: Sustaining the Norm During and Beyond the Global Crisis

Policy Reforms in the Financial Sector since 2007

Following the financial crisis of August 2007 and related Great Recession, the goal of financial stability has emerged as one of the main priorities of central banks around the world. Financial stability means a strict control of the workings of financial markets, such that financial institutions and actors become socially and economically useful to the economy as a whole and to the productive economy in particular. Similarly, banks should serve the needs of their customers rather than provide short-term gains for shareholders and huge profits for themselves. In this regard, a relevant US proposal is what was initially known as the Volcker Rule⁶, which was signed into law on 21 July 2010, and became the Dodd-Frank Act of 2010. This is a lengthy rule with the relevant elements to this contribution being as

follows: (i) eliminate proprietary investments, i.e. banks should not be allowed to use insured deposits for the purposes of own trading operations; (ii) prohibit ownership of hedge funds by banks (in the final version of the Act banks would be allowed to hold proprietary investments of 3 percent of their core capital); (iii) no financial firm should be allowed to become ‘too big to fail’, i.e. size matters; (iv) the end of taxpayer bailouts, whereby the legislation grants government the power to wind down failing institutions, not just banks, if they threaten the financial system; (v) the introduction of a new Office of Credit Ratings the aim of which is supervision of the Credit Rating Agencies.

The financial sector, and the Financial Services Forum (FSF) in particular, which represents 18 US top banks, has been critical of the Dodd-Frank Act. The main critique is that the Act puts jobs at risk, damage US competitiveness and might even threaten growth in the US economy. Supervision should be the way to tackle problems in the financial sector with the most frequently used argument against the proposals is that they are by far too complicated. Against this view, it could be argued that the Dodd-Frank proposals cannot be more complicated than the creation of the Collateralised Debt Obligations (CDOs), which was one of the main causes of the 2007 financial crisis. Indeed, compared to CDOs, the new proposals are delightfully simple. In fact, this Act may not be the Glass-Steagall Act of 1933, but it is the most sweeping and wide-ranging overhaul of the US financial regulations since the 1930s. However, it is doubtful that this Act would have prevented the financial crisis. This is for two reasons. First, it is grounded on very shaky theoretical foundations, in view of the non-separation of commercial and investment entities. Secondly, the Act, as well as current proposals to reform the finance industry, do not challenge the homogeneity and hegemony of the group identities and related interests of the set of individuals who have dominated the finance industry for the last few decades. This means that the same social norms and practices used before 2007-2008 are likely to be maintained and sustained beyond the GC. This raises

serious doubt on the effectiveness of the Act and reforms of the financial sector. The rest of this Section discusses these two reasons, starting with a brief discussion of the shaky foundation theoretical foundations of financial reforms, before an analysis of how pre-2007/2008 social norms are likely to be used and maintained in the decades to come.

One of the major problems with the current approach to financial regulation is that it is grounded on a theoretical framework, namely the neoclassical theory of money that maintains the classical dichotomy between real and monetary sectors (Fontana 2010: Ch. 2). As long as money is considered a veil, and commercial banks are deemed to be intermediaries between savers and investors, financial crises can only be the outcome of external factors, like e.g. lax or fraudulent lending behavior by mortgage originators, lack of due diligence, if not conflicts of interest, by credit ratings agencies, or the unusually accommodative behavior of the Fed (the so-called Greenspan's put). As a result the current approach to financial regulation is *ad hoc*, backward-looking and of a piecemeal nature.

By contrast, in an endogenous money approach where money has the nature of a debit-credit relationship, commercial banks create *ex-nihilo* liquidity, and hence money is neutral neither in the short-run nor in the long-run (Graziani 2003), financial crises could be endogenously created by the normal workings of modern economies. The Financial Instability Hypothesis is a classic case in point (Minsky 1986). In an endogenous money approach, there is also a clear distinction between commercial banks and financial institutions (Fontana 2010: Ch. 5). The former create *ex-nihilo* liquidity by accommodating – at their own price - the demand for loans of credit-worthy firms and households. Banks thus convert illiquid claims of firms and households into liquid means of payment, namely sight deposits. Financial institutions collect existing liquidity from savers (usually with long-run horizons) and allocate it to investors (usually with short-run horizons). They therefore intermediate between savers and investors

that have different liquidity preferences. Thus, commercial banks as opposed to financial intermediaries can issue debts claims on themselves, namely sight deposits, which are accepted as final means of payment in the economy. This means that a sound approach to financial regulation should focus on the economic functions of the banking and financial system rather than on institutions or financial products (Kregel 2014, Kregel and Tonveronachi 2014). For this reason it is doubtful that the Dodd-Frank Act, which does not separate commercial banking from financial intermediaries (e.g. investment banks), would have prevented the financial crisis of 2007-2008.

Progress on financial reform, though, is extremely slow. This slow progress can be explained – at least in part - by one of the main arguments of this contribution in that the social identity of the key players driving the financial reform process is responsible for it. In other words, the established set of economic ideals and social practices that were the common norm before 2007-2008 have not been challenged by the financial crisis and the GC that followed it. This means that the same social norms and practices used before 2007-2008 are likely to be maintained and sustained in future years. For instance, the Group of Thirty, an international body of financiers and academics, heads or former heads of Central Banks and chaired by Jean-Claude Trichet published a report in 2013 calling for a new paradigm for financial institution boards and financial supervision (SteeringCommittee 2013). Yet, if “the new paradigm recognizes the shared interests of boards and supervisors” (ibid: 11) and the first new principle for boards is to “have members who have ongoing relationships with supervisors and who are versed in matters of interest to the supervisor” (ibid: 34), then it is highly probable that the demographics of the group responsible for financial decision-making stay homogenous beyond the crisis. As such the slow progress of reforms is in their group interests. The IMF managing director Christine Lagarde was right to argue at a recent

conference in London ('Inclusive Capitalism', 27 May 2014) that the finance industry is responsible for the lack of meaningful banking sector reforms in view of their worrying poverty of action. Indeed, the IMF director went on to argue, "the bad news is that progress is still too slow and the finish line is still too far off". In fact, over five years since the Dodd-Frank Act of July 2010 the banking reform remains a work in progress not merely in the US but also across the world.

Norm Sustainability beyond the Global Crisis

The ethical values and economic interests driving the behaviour of the high-status/high-earnings group have led to a movement of income away from the real sector and other groups, which is still the case several years after the 2007-2008 financial crisis. Norm sustainability in the financial sector needs to be understood in terms of the convergence of interests at stake to consider its persistence over time. Weber (1905) provided the well-known argument linking materialism to the capitalist and protestant ethics as a source of financial success. The experience of financialisation in different countries has however been quite diverse (Lapavistas and Powell 2013), which suggests that managerial and financial norms go beyond economic and religious values to include social identities. In effect, the masculinity (Knights and Tullberg 2012, Connell and Messerschmidt 2005), intersectionality (hooks 1981, Nash 2008), stratification (Darity et al. 2006, Mason 1996) and feminist (Nelson 1992, Meyers 2005) literatures, have stressed the importance of social identities in influencing economic interactions, and in particular how it affects the movement of income between social groups.

In the context of the financial sector, Knights and Tullberg (2012) have shown that the capitalist value of economic self-interest and particular masculine ideals such as risk-taking and authoritative action have merged in a way to sustain the norm of high-status/high

earnings leading to the Great Recession. If one considers Weber's view to be applicable to the US, the managerial and financial behavioural norm of the Great Moderation is therefore at the intersection of capitalist, protestant, and masculine ideals which have led to the building of earning excesses. The literatures on intersectionality (hooks 1981, Nash 2008) and stratification (Darity et al. 2006, Mason 1996) in effect show that the cumulative effect of identities on the social stratification of modern economies can lead to worse outcomes than considering identities separately (Davis 2015). For instance, the intersectionality literature started as a critique of the early feminist movement considered to be biased towards white middle-class women and ignoring the experience of black women. Being at the intersection of the black and women groups, black women suffer from both sexism and racism in social and economic interactions. One of the insights of these literatures is to consider that an individual is at the intersection of heterogeneous identities with unequal power. As such, the outcome of cumulative identities with unequal power on inequality can be worse than the addition of equal identities. In the context of financialisation in the US, it meant that the cumulating effect of capitalist, protestant and masculine ideals has had an exponential rather than linear outcome on social stratification⁷.

Norms and ethical behaviour in managerial and financial occupations are therefore to be understood in terms of the cumulative effect of heterogeneous identities with unequal power. For example, Van Staveren (2014) argues that gender ideals constraint women outside the top managerial roles in the financial sector and thus reinforce the existing strong masculine culture in place. She further argues that women being better at managing risk and uncertainty than men should have better access to top managerial positions. However, whether a higher proportion of women in the top managerial positions of financial institutions would have impacted on the likelihood to lead to financial excesses depends on the norm adopted in the context of this occupational group, and more generally on the institutional environment. For

instance, Prügl (2012) notes that risk-taking is a recent ‘masculine’ phenomenon in the financial sector, and that 20-30 years ago ‘masculinist’ banking was quite conservative and risk averse. In other words, masculinity is not a static phenomenon, and has been affected by (and in turn has influenced) the same features of the financialisation process that have led to the GC, including increasing inequality, financial liberalisation and deregulation. Cohn et al. (2014) in effect show that context matters in the banking profession, and that once in the context of this occupation, the economic self-interest takes over the interests of other identities. Therefore, access to top managerial position by heterogeneous identity groups would also lead to financial excesses as long as this prevailing norm is sustained over time. In 2014, the enquiry of the US Senate on suspicion of influence over commodity prices by Goldman Sachs, JPMorgan Chase and Morgan Stanley shows that rent-seeking behaviour in the financial profession is likely to be sustained over time.

The demographic composition of board of directors influences their process of decision-making. In an extensive review of the research on the human and social capital at the managerial level, Johnson et al. (2013) show that the diversity of human capital is beneficial for board decision-making processes (see also Page 2007) but that the way occupational, human, social diversities interact makes it difficult to assess the reasons behind this positive effect. Another research finding is that contextual effects are important on the firm outcomes, which thus add a cultural dimension to the factors influencing decision making at the board level. As they suggest, research should go beyond cross-industry analysis to account for the diversity of cultural, social, and human capital: “[d]oes a female director have more influence in France, the United Kingdom, or Japan? Does financial expertise vary in influence by country or industry? Does industry specific expertise vary based on country? Are there some characteristics that are “converging” in the way that some scholars argue some governance dimensions are more general?” (Johnson et al. 2013: 254). The intersection of cultural, social,

and economic norms at the board level seems to be a key element in determining the decisions of firms.

Concluding Remarks

Looking for a financially stable and sustainable behaviour, the lesson of both financialisation and stratification is that having one homogenous group at the top of the social and organisational hierarchy with the short-term view of pursuing its own self-interest undermines financial stability and sustainability of the society at large. Identity-related ideals are not at stake here if one considers each of these group identities separately, namely white, masculine, protestant, heterosexual, middle-age groups, etc.. Instead, major concerns arise when the intersection of identities creates an ideal that damage, not only the financial sector, but also the stability and sustainability of the real economy. Finding the right combination of ideals to sustain a stable financial behaviour therefore requires a better understanding of the long-term benefits of decision-making, its implications on others in the real sector, and the specific institutional environment in which the intersection of heterogeneous identities takes place.

References

- Allport, G. 1954. *The Nature of Prejudice*. Cambridge, MA: Perseus Press.
- Arestis, P., Charles, A. & Fontana, G. 2013. 'Financialisation, the Great Recession and the Stratification of the US Labour Market.' *Feminist Economics*, 19:3, 152-80.
- Arestis, P., Charles, A. & Fontana, G. 2014. 'Identity Economics Meets Financialisation: Gender, Race, and Occupational Stratification in the US Labour Market.' *Cambridge Journal of Economics*, 38:6, 1471-91.
- Arestis, P. & Karakitsos, E. 2013. *Financial Stability in the Aftermath of the 'Great Recession'*. London: Palgrave Macmillan.
- Bauman, Z. 1972. *Between Class and Elite: The Evolution of the British Labour Movement: A Sociological Study*. Manchester: Manchester University Press.
- Bauman, Z. 1982. *Memories of Class: The Pre-history and After-life of Class*. London: Routledge.
- Bauman, Z. 1998. *Globalization: The Human Consequences*. Cambridge: Polity Press.
- Bauman, Z. 1999. 'The Self in a Consumer Society.' *The Hedgehog Review*, 1, 35-40.
- Bauman, Z. 2011. *Collateral Damage: Social Inequalities in a Global Age*. Cambridge: Polity Press.
- Berik, G. & Kongar, E. 2013. 'Time Allocation of Married Mothers and Fathers in Hard Times: the 2007-09 US Recession.' *Feminist Economics*, 19:3, 208-37.
- Blumer, H. 1954. 'What is Wrong with Social Theory.' *American Sociological Review*, 18, 3-10.
- Braunstein, E. 2008. 'The Feminist Political Economy of the Rent-Seeking Society: An Investigation of Gender Inequality and Economic Growth.' *Journal of Economic Issues*, 42:4, 959-79.
- Charles, A. 2011. 'The Great Recession and Ethnic Inequalities in the U.S. Labour Force.' *History of Economic Ideas*, 19:2, 163-76.
- Charles, A. & Fontana, G. 2011. 'A Critical Assessment of the Financialisation process and its Effects on the US Labour Force during the Great Recession.' *International Journal of Public Policy*, 7:1/2/3, 97-111.
- Cohn, A., Fehr, E. & Maréchal, M. A. 2014. 'Business Culture and Dishonesty in the Banking Industry.' *Nature, Letters*:516, 86-89.
- Connell, R. W. & Messerschmidt, J., W. 2005. 'Hegemonic Masculinity: Rethinking the Concept.' *Gender & Society*, 19:6, 829-59.
- Crotty, J. 2012. 'The Great Austerity War: What Caused the US Deficit Crisis and Who Should Pay to Fix It?' *Cambridge Journal of Economics*, 36:1, 79-104.
- Darity, W. A., Jr. 1989. 'What's left of the economics of discrimination.' In S. Shulman & W. A. Darity, Jr. (Eds.) *The Question of Discrimination: Racial Inequality in the U.S. Labour Market*. Middleton, USA: Wesleyan University Press.
- Darity, W. A., Jr. 2005. 'Stratification Economics: The Role of Intergroup Inequality.' *Journal of Economics and Finance*, 29:2, 144-53.
- Darity, W. A., Jr., Mason, P. L. & Stewart, J. B. 2006. 'The Economics of Identity: The Origin and Persistence of Racial Identity Norms.' *Journal of Economic Behavior and Organization*, 60:3, 285-305.
- Darity, W. A., Jr. & Williams, R. 1985. 'Peddlers Forever? Culture, Competition, and Discrimination.' *American Economic Review*, 75:2, 256-61.
- Davis, J. B. 2015. 'Stratification Economics and Identity Economics.' *Cambridge Journal of Economics*, Forthcoming.

- Dymski, G. A. 2010. 'Why the Subprime Crisis is Different: A Minskyian Approach.' *Cambridge Journal of Economics*, 34:20, 239-55.
- Epstein, G. A. 2005. 'Introduction: Financialization and the World Economy.' In G. A. Epstein (Ed.) *Financialisation and the World Economy*. Cheltenham, UK: Edward Elgar.
- Fitoussi, J. & Saraceno, F. 2010. 'Inequality and Macroeconomic Performance.' OFCE/POLHIA.
- Fitoussi, J. & Stiglitz, J. 2009. 'The Ways Out of the Crisis and the Building of a More Cohesive World.' Paper presented at The Shadow GN.
- Folbre, N. 2012. 'The Political Economy of Human Capital.' *Review of Radical Political Economics*, 44:3, 281-92.
- Fontana, G. 2010. *Money, Uncertainty and Time*. London: Routledge.
- Galbraith, J. K. 2011. 'Inequality and Economic and Political Change: A Comparative Perspective.' *Cambridge Journal of Regions, Economy and Society*, 4, 13-27.
- Graziani, A. 2003. *The Monetary Theory of Production*. Cambridge: Cambridge University Press.
- Grimshaw, D. & Rubery, J. 2012. 'The End of the UK's Liberal Collectivist Social Model? The Implications of the Coalition Government's Policy During the Austerity Crisis.' *Cambridge Journal of Economics*, 36:1, 105-26.
- hooks, b. 1981. *Ain't I a Woman?: Black Women and Feminism*. Boston: South End Press.
- Johnson, S. G., Schnatterly, K. & Hill, A. D. 2013. 'Board Composition Beyond Independence: Social Capital, Human Capital and Demographics.' *Journal of Management*, 39:1, 232-62.
- Knights, D. & Tullberg, M. 2012. 'Managing Masculinity/Mismanaging the Corporation.' *Organization*, 19:4, 385-404.
- Kregel, J. 2014. 'US Financial Regulation: The Dodd-Frank Wall Street Reform and Consumer Protection Act in Current and Historical Perspective.' *FESSUD Working Paper*, 69.
- Kregel, J. & Tonveronachi, M. 2014. 'Fundamental Principles of Financial Regulation and Supervision.' *FESSUD Working Paper*, 29.
- Krippner, G. 2005. 'The Financialization of the American Economy.' *Socio-Economic Review*, 3:2, 173-208.
- Kuznets, S. 1955. 'Economic Growth and Income Inequality.' *American Economic Review*, 45, 1-28.
- Lacy, K. 2012. 'All's Fair? The Foreclosure Crisis and Middle-class Black (In)stability.' *American Behavioral Scientist*, 56:11, 1564-80.
- Lapavistas, C. & Powell, J. 2013. 'Financialisation Varied: A Comparative Analysis of Advanced Economies.' *Cambridge Journal of Regions, Economy and Society*, 6:3, 359-79.
- Mason, P. L. 1996. 'Race, Culture, and the Market.' *Journal of Black Studies*, 26:6, 782-808.
- Meyers, D. T. 2005. 'Who's There? Selfhood, Self-Regard, and Social Relations.' *Hypatia*, 20:4, 200-15.
- Minsky, H. P. 1986. *Stabilizing an Unstable Economy*. New Haven: Yale University Press.
- Nash, J. C. 2008. 'Re-thinking Intersectionality.' *Feminist Review*, 89, 1-15.
- Nelson, J. A. 1992. 'Thinking about Gender.' *Hypatia*, 7:3, 138-54.
- Ortiz, I. & Cummins, M. 2013. 'Austerity measures in developing countries: public expenditure trends and the risks to children and women.' *Feminist Economics*, 19:3, 55-81.

- Page, S. E. 2007. *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools, and Societies*. Princeton: Princeton University Press.
- Palley, T. I. 2013. *Financialization: The Economics of Finance Capital Domination*. London: Palgrave Macmillan.
- Perugini, C., Hölscher, J. & Collie, S. 2015. 'Inequality, Credit and Financial Crises.' *Cambridge Journal of Economics*, Forthcoming.
- Philippon, T. & Reshef, A. 2012. 'Wages and human capital in the U.S. finance industry: 1909-2006.' *Quarterly Journal of Economics*, 127:4, 1551-609.
- Prügl, E. 2012. "'If Lehman Brothers had been Lehman Sisters...': Gender and Myth in the Aftermath of the Financial Crisis.' *International Political Sociology*, 6:1, 21-35.
- Rugh, J. S. & Massey, D. S. 2010. 'Racial Segregation and the American Foreclosure Crisis.' *American Sociological Review*, 75:5, 629-51.
- Seguino, S. 2010. 'The Global Economic Crisis, Its Gender and Ethnic Implications, and Policy Responses.' *Gender and Development*, 18:2, 179-99.
- Seguino, S. 2013. 'The Unholy Trinity: Stratification, Crisis, and Austerity.' *Gender and Race Imbalances of the 'Great Moderation' and the 'Great Recession'*. University of Leeds.
- Seguino, S. & Heintz, J. 2012. 'Monetary Tightening and the Dynamics of US Race and Gender Stratification.' *American Journal of Economics and Sociology*, 71:3, 603-38.
- Steering Committee 2013. 'A New Paradigm: Financial Institution Boards and Supervisors.' Washington, D.C.: Group of Thirty.
- Stockhammer, E. 2015. 'Rising Inequality as a Cause of the Present Crisis.' *Cambridge Journal of Economics*, Forthcoming.
- Tridico, P. 2012. 'Financial Crisis and Global Imbalances: Its Labour Market Origins and the Aftermath.' *Cambridge Journal of Economics*, 36:1, 17-42.
- Van Staveren, I. 2014. 'The Lehman Sisters hypothesis.' *Cambridge Journal of Economics*, 38, 995-1014.
- Weber, M. 1905. *The Protestant Ethic and the Spirit of Capitalism*. London & Boston, 1930: Unwin Hyman.
- Wrenn, M. V. 2014. 'The Social Ontology of Fear and Neoliberalism.' *Review of Social Economy*, 72:3, 337-53.

¹ Looking at debt statistics, between 1998 and 2002 outstanding household debt in the US was 76.7 percent to GDP; between 2003 and 2007 it shot to 97.6 percent of GDP. In the same periods, and in the UK case, household debt jumped from 72.0 percent of GDP to 94.3 percent of GDP. In the Euro Area household debt moved from 48.5 to 56.6, respectively. Also, over the period 1997 to 2007 the ratio of US financial sector debt to GDP rose by 52 percent. Similar numbers apply in the case of other developed countries, notably UK, Ireland, Spain.

² See, also, Epstein (2005), and Palley (2013).

³ See Ortiz and Cummins (2013) for a comparative study of expenditures cuts in developing countries and its detrimental effects on children, women and pensioners.

⁴ See Bauman (1972: 303).

⁵ See, also, Folbre (2012) on how group identity and collective action based on gender, class, and age affect the distribution costs of developing human capital.

⁶ In addition to the Volcker rule, other regulatory schemes often discussed in the literature are the Liikanen subsidiarisation and the Vickers ring fencing. See Kregel and Tonveronachi (2014) for a critical discussion of all three regulatory schemes.

⁷ See Arestis, Charles and Fontana (2014) and Philippon and Reshef (2012) for some empirical evidence on the exacerbation of financial earnings over time.